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February 18, 2021

**Statement by Mr. Guerra and Ms. Arevalo Arroyo on Malaysia
(Preliminary)
Executive Board Meeting
February 22, 2021**

We thank staff for the comprehensive report and Ms. Mahasandana and Mr. Mahyuddin for their helpful Buff statement. Malaysia entered the COVID-19 crisis from a stronger position than other economies but nonetheless faced a substantial impact to its economy. The coordinated policy response, in hand with pre-existing buffers, has allowed the country to contain the virus, protect the livelihoods of people and support the economy. We broadly agree with the staff's appraisal and will provide some comments for emphasis.

The authorities' commitment to fiscal consolidation and medium-term reform as the economy reaches a stronger recovery path, together with the envisaged improvement to the fiscal framework, is welcome. As presented, the 2021 budget strikes an appropriate balance between efforts to support the economy and protecting livelihoods. We agree with staff that completion of the Fiscal Responsibility Act would be helpful to better anchor public finances. As previous Fund advice has noted, it will be important to introduce the required flexibility, in case of significant large shocks, to allow for temporary breach of the debt limit under clearly defined requirements to put debt back on track after the shock has passed. On social protection, we consider that the authorities' plan to update their system will be beneficial to improve outcomes for the most vulnerable population, particularly children and elderly.

We welcome the authorities' efforts to deepen domestic FX markets, which have effectively bolstered the role of the exchange rate as a shock absorber. These initiatives should continue, in hand with a gradual phase out of existing CFM measures. We note, however, the authorities' difference in view with staff, but we agree that there is scope for the

gradual phase out of existing CFM measures while being vigilant of market conditions. That said, we take positive note that given their different view, the authorities are exploring alternative mechanisms that could serve similar objectives more effectively before phasing out such measures, as stated in the Buff.

We welcome adding financial inclusion considerations and climate change risk in the envisaged financial structural reforms. We support the promotion of financial inclusion through innovative digital measures, such as digital banking licensing, in the light of e-payments prominence in the context of the pandemic. This will be useful to enhance access in financially underserved areas. Additionally, we are encouraged by the inclusion of climate change risk in the surveillance and supervisory frameworks aimed to generate a climate resilient economy. We are encouraged to know that the BNM active participation in the Network for Greening the Financial System contributed to this end. *Staff comments are welcome regarding what aspects of these measures could be useful to other countries subject to climate-related shocks.*

We welcome the authorities' commitment to pursue structural reforms and enhancing governance. The authorities' reform program appropriately focuses on issues that need to be addressed given the pandemic, such as health, inclusion and greening the economy. This plan, in hand with further advancing governance, will help boost the recovery.